

# EXHIBIT

## 109

1	BEFORE THE STATE BOARD OF EQUALIZATION	1
2	OF THE STATE OF CALIFORNIA	2
3		3
4		4
5	In the Matter of the Appeal	5
6	of	6
7	AARON R. FROSCH, ANCILLARY EXECUTOR	7
8	OF THE CALIFORNIA ANCILLARY ESTATE	8
9	OF MARILYN MONROE, DECEASED.	9
10		10
11	Assessment Nos.	11
12	03109116, 03109117,	12
13	03109118, 03109119,	13
14	03109120, 03109121,	14
15	03109122, 03109123	15
16		16
17	MEMORANDUM IN SUPPORT OF APPEAL	17
18	BY AARON R. FROSCH, ANCILLARY	18
19	EXECUTOR OF THE ANCILLARY ESTATE	19
20	<u>OF MARILYN MONROE, DECEASED</u>	20
21		21
22		22
23		23
24		24
25		25
26	GANG, TYRE & BROWN	26
27	6400 Sunset Building	27
28	Hollywood, California 90028	28
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INTRODUCTORY STATEMENT

This is an appeal from a denial by the California Franchise Tax Board of Appellant's tax assessment protest.

The Estate. Marilyn Monroe died in 1962, a resident of the State of New York. Her will was admitted to probate in the Surrogate Court, County of New York, on January 14, 1963, and Aaron R. Frosch, a New York resident, was named as Executor.

A Petition For Probate of Foreign Will and For Ancillary Executor was filed in California on January 17, 1963, alleging the existence in California of certain real property and incidental personal property. An Order Admitting Foreign Will to Probate and For Ancillary Executor was entered in the above proceeding on January 21, 1963, naming Aaron R. Frosch as ancillary executor. Ancillary Letters Testamentary were issued to Mr. Frosch on February 26, 1963. The total appraised value of decedent's estate in California was \$92,781 in 1963, but the clear market value thereof (after allowable deductions, the largest of which was a first trust deed encumbrance on the California real property) was \$36,144.22.

All beneficiaries under decedent's will are non-residents. Until her death in 1970, one beneficiary (entitled to a lifetime annuity of \$2500 per year) was a resident of California, and, until moving from this State in 1966, another beneficiary (entitled to a lifetime annuity of \$5000 per year) resided in California. All other beneficiaries have at all times been nonresidents.

The Income. During the course of her life, Marilyn Monroe performed in the theatrical motion pictures "Some Like It Hot" and "The Misfits" (the "Films"). "Some Like It Hot"

1 was filmed entirely in California, while only 10% of "The 1  
2 Misfits" was filmed in this State. Pursuant to agreements 2  
3 between Miss Monroe and United Artists Corporation ("UA"), a 3  
4 Delaware corporation, whose principal place of business is 4  
5 New York City, New York, UA agreed to pay directly to Miss 5  
6 Monroe all compensation for her services in the Films. Apart 6  
7 from fixed compensation paid contemporaneously with the 7  
8 principal photography, UA agreed to pay contingent consider- 8  
9 ation based upon a percentage of the Films' earnings, as and 9  
10 when accruing (the "Percentage Payments"). 10

11 Ever since Miss Monroe's death, all Percentage Pay- 11  
12 ments have been paid to Aaron R. Frosch as executor of Miss 12  
13 Monroe's estate under the New York probate. All these Pay- 13  
14 ments were made wholly within New York, by means of checks 14  
15 drawn by UA's New York offices on New York banks, and at no 15  
16 time was any portion of said moneys paid to or received by 16  
17 any person or entity in California or included in the 17  
18 California ancillary probate estate. 18

19 Because Miss Monroe died a resident of New York, the 19  
20 value at the date of death of her contractual rights to Per- 20  
21 centage Payments under the UA agreements was included in the 21  
22 New York estate for purposes of New York estate taxes, and 22  
23 estate taxes were paid to New York based upon this valuation. 23  
24 Similarly, each post-death Percentage Payment, when received, 24  
25 was included in the New York estate's current income for 25  
26 purposes of New York income tax, and income taxes based upon 26  
27 these amounts were timely paid to the State of New York. 27

28 Even though no portion of the post-death Percentage 28  
29 Payments was ever paid to the California ancillary estate, the 29  
30 Franchise Tax Board ("FTB") seeks to tax these sums in pro- 30  
31 portion to the amount of filming conducted in this State. 31  
32 The FTB's assertions are as follows: 32

1				1
2				2
3	<u>Year</u>	<u>Purported Taxable Income *</u>	<u>Tax Assessed</u>	<u>Penalty</u>
4	1963	\$ 34,569.42	\$ 1,894.86	\$ 473.72
5	1964	151,893.97	10,107.58	2,526.89
6	1965	150,651.62	10,020.61	2,505.15
7	1966	152,013.12	10,115.92	2,528.98
8	1967	145,600.53	13,830.05	3,457.51
9	1968	39,709.09	3,240.91	810.23
10	1969	6,386.94	140.48	35.12
11	1970	26,227.09	1,892.71	473.18
12				12
13	TOTAL		<u>\$51,243.12</u>	<u>\$ 9,710.78</u>
14				14
15				15
16				16
17				17
18				18
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# ARGUMENT

1. California Is Not Entitled To Tax The Percentage Payments  
Because There Is No Statutory Or Regulatory Authority  
Permitting Such Taxation.

Because the FTB has conceded the estate is a non-  
resident of California, it is only entitled to tax specific  
types of income from sources within this State. According to  
California Revenue and Taxation Code ("R&T") Regs. § 17742-  
17745(a)(2),

\* The FTB has based its assessments upon gross income figures.  
If a California tax is determined to be due, Appellant will  
supply appropriate deductions at such time.

"If the settlor, the fiduciary and the beneficiaries are all nonresidents of this State, only income from real or personal property located in this State (see Reg. 17951-54(c)), business carried on within this State (see Reg. 17951-54(d)), and intangible personal property having a business or taxable situs in this State, (see Reg. 17951-54(f)) is taxable."

This Regulation governing nonresident estates is more narrowly restrictive than are the provisions dealing with taxation of living nonresidents. Living nonresidents are taxed upon all income from sources within this State--not merely those specific income items set forth above for estates.\*\* A very significant difference between the taxation of nonresident estates and individuals is the deletion in the estate provisions of any reference to personal service income. This omission is clearly deliberate because personal service income of living nonresidents is dealt with in Reg. § 17751-54(e), and the above Regulation carefully limits itself to Reg. §§ 17751-54(c), 17751-54(d) and 17751-54(f)--a conscious passing over of subsection (e). The reason for this deletion was to implement a policy excluding taxation of this type of income to nonresident estates. The draftsmen intended that estates of nonresident decedents be taxed only on income generated by the estate itself--i.e., that such

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\* R&T § 17744 provides for an apportionment of income based upon the residence of beneficiaries, and Appellant concedes that if the FTB prevails upon this Section 1, this State may implement such formula for the years (if any) in which income was distributable to California resident beneficiaries. For simplicity, and because it is Appellant's contention under Section 2 below that all claimed taxes in respect of the Percentage Payments are offset by a tax credit, the text deals with the estate's entire income as if there were no California resident beneficiaries.

\*\* R&T § 17951; Reg. § 17951-54(a)(1)'.

estates be taxed only on the California-source income  
generated by the estate's assets or activities; not on income  
 created prior to the time the estate was in existence (such  
 as personal service income of the decedent) which is  
passively received by the estate outside of California.  
 Thus the Percentage Payments, concededly personal service in-  
 come of Miss Monroe, are not intended by the governing  
 Regulations to be taxable under California law.

The FTB has argued that the Percentage Payments are  
 "income in respect of a decedent" under R&T § 17833 and there-  
 fore are taxable notwithstanding the limited authority of  
 Reg. § 17742-45(a)(2). This assertion is based upon the  
 language of R&T § 17833 which provides that income received  
 by an estate has the same "character" in the hands of the  
 estate as it did in the hands of the decedent.\* According  
 to the FTB, this "character" rule enlarges California's  
 jurisdiction to tax this particular type of income because,  
 if Miss Monroe were a living nonresident, the Percentage  
 Payments would be taxable in this State under Reg. § 17951-  
 54(e).

The FTB's attempt to thus add Reg. § 17951-54(e)  
 to Reg. § 17742-45(a)(2) through the term "character" not  
 only runs contrary to the deliberate omission of personal

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\* Sec. 17833. [CHARACTER OF INCOME DETERMINED BY REFERENCE  
 TO DECEDENT.] The right, described in Section 17831 [income  
 in respect of a decedent], to receive an amount shall be  
 treated, in the hands of the estate of the decedent, . . . as  
 if it had been acquired by the estate . . . in the transaction  
 in which the right to receive the income was originally de-  
 rived and the amount includible in gross income under Section  
 17831 or 17832 [sale of right to income in respect of a de-  
 cedent] shall be considered in the hands of the estate . . .  
 to have the character which it would have had in the hands of  
 the decedent if the decedent had lived and received such  
 amount.

1 service income from the Regulations dealing with nonresident 1  
 2 estates, but it also fails to recognize the distinction be- 2  
 3 tween two very different issues: (1) Whether the Percentage 3  
 4 Payments are taxable under California law; and, if so, (2) 4  
 5 whether their taxable nature is ordinary income, capital gain, 5  
 6 etc. R&T § 17833 is only designed to deal with the latter of 6  
 7 these issues, and it would require an expansion beyond all 7  
 8 legislative intent and decided authority to interpret the 8  
 9 term "character" as including the former. 9

10 Section 17833 is identical to Internal Revenue Code 10  
 11 ("IRC") § 691(a)(3), while R&T Reg. § 17831-17834(c) 11  
 12 [character of gross income in respect of a decedent] is 12  
 13 identical to IRC Reg. § 1.691(a)-3. Appellant has conducted 13  
 14 an extensive search of the Regulations and legislative 14  
 15 history of R&T § 17833 as well as IRC § 691, and nowhere in 15  
 16 any of these materials is there mention, or indeed even 16  
 17 indication, that the word "character" was ever intended to 17  
 18 encompass "taxability."\* Quite the contrary, the legislative 18  
 19 history of § 691 makes it very clear that the purpose of this 19  
 20 section was entirely different. Under case law before enact- 20  
 21 ment of § 691, income which had accrued prior to the death of 21  
 22 the decedent was valued for estate tax purposes, given a 22  
 23 basis at that value, and then never taken into income when 23  
 24 collected (the collections represented merely a recovery of 24  
 25 basis). Solely to overcome this result, § 691 (formerly 25  
 26 § 42 of the 1934 and 1938 Revenue Acts; § 126 of the 1942 26  
 27 27  
 28

29 \*  
 30 The examples under R&T Reg. § 17831-17834(c), e.g., deal 30  
 31 with capital gains, tax-free governmental interest, and 31  
 32 income averaging. Certainly none of these factors are 32  
 33 relevant to determining the "taxability" of particular amounts; 33  
 34 they are only concerned with the rate of tax based upon the 34  
 35 type or "character" of the income involved. 35



1 Revenue Act) was enacted. 1

2 The distinction between "character" and "taxability" 2  
3 has been recognized by the Franchise Tax Board in its own 3  
4 Legal Ruling No. 291, dated April 23, 1965. Although the 4  
5 problem in this Ruling was somewhat different from the instant 5  
6 case, it was nonetheless quite analogous and the reasoning and 6  
7 policy are the same. 7

8 In L.R. No. 291, the FTB was faced with the question 8  
9 of whether income received by a California resident from 9  
10 intangibles held by a nonresident trust was entitled to a tax 10  
11 credit in this State--if the amounts were from sources within 11  
12 California, no credit was available. In determining that the 12  
13 taxpayer could not claim a credit, the Ruling was careful to 13  
14 delineate the two issues set forth above (source vs. 14  
15 character). The first step in the analysis was to determine 15  
16 whether the income was from sources within California. In 16  
17 holding that it was instate income, the decision noted that 17  
18 a trust beneficiary is the "owner" of intangibles in the 18  
19 trust, and, accordingly, such intangibles have a situs (and 19  
20 therefore a source) at his residence. Only at that point, 20  
21 i.e., only after deciding that these amounts were indeed from 21  
22 sources within California, did the Ruling take the second 22  
23 step to consider the "character" of the income. Even though 23  
24 R&T § 17752(b) provided that amounts distributed to bene- 24  
25 ficiaries of a trust have the "same character in the hands 25

26 ///

27 ///

28 ///

29 ///

30 ///

31 ///

32 ///

1 of the beneficiary as in the hands of the trust,"\* the 1  
 2 decision explicitly did not base its "taxability" determina- 2  
 3 tion on this "character" language: 3

4 " . . . The rules governing jurisdiction 4  
 5 to tax and the character (conduit)\*\* rule 5  
 6 are entirely separate and distinct and 6  
 7 have no relation to each other. As 7  
 8 stated in Bank of America v. U. S., 23 8  
 9 Fed.Supp. 152 (1962), the conduit theory 9  
 10 should be applied not to find tax 10  
 11 liability, but to determine only the 11  
 12 character of the amounts distributed for 12  
 13 the purposes of assessing taxes after 13  
 14 tax liability has been established." 14  
 15 (emphasis added). 15

16 For the FTB to expand the "character" definition 16  
 17 contained in R&T § 17833 to include "jurisdiction to tax" 17  
 18 would thus contradict its own Ruling and be without authority 18  
 19 in either the law, regulations or legislative history. 19  
 20 Accordingly, the FTB has approached this issue in a manner 20  
 21 directly contrary to the existing precedents, and its analysis 21  
 22 under § 17833 must be reversed: The question of whether the 22  
 23 Percentage Payments are taxable under California law must be 23  
 24 determined before the character rule (ordinary income, 24  
 25 capital gain, etc.) can be considered. 25  
 26 26

27 \* The "character" aspects of § 17752 are virtually identical 27  
 28 to the "character" language of § 17833: 28

29 "Section 17752. (a) Subject to subsection (b), 29  
 30 the amount of income for the taxable year re- 30  
 31 quired to be distributed currently by a trust 31  
 32 described in Section 17751 shall be included 32  
 33 in the gross income of the beneficiaries to 33  
 34 whom the income is required to be distributed, 34  
 35 whether distributed or not. . . . 35

36 "(b) The amounts specified in subsection 36  
 37 (a) shall have the same character in the hands 37  
 38 of the beneficiary as in the hands of the 38  
 39 trust. . . ." 39

40 § 17833 is set forth in the footnote on page 6, supra. 40

41 \*\* The phrase "conduit rule" refers to the fact that § 17752 41  
 42 causes the character of income to flow through the trust to 42  
 43 the beneficiary. Section 17833 causes the character of in- 43  
 44 come to flow through the decedent to the estate. 44

As discussed above, the Percentage Payments are not taxable in California under existing law because they do not fall within any of the categories prescribed by R&T Reg. § 17742-17745(a)(2). This being so, there is no reason to determine whether the "character" of these amounts is ordinary income, capital gain, etc., and R&T § 17833 never comes into play. To hold otherwise would be to stretch the meaning of a section designed for an entirely different purpose in order to circumvent the clear language of a carefully drawn Regulation that deals with the precise question in point.\*

By reason of the foregoing, no part of the Percentage Payments is taxable in California.

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\* The unfairness of taxing personal service income paid to the estate of a nonresident--as well as further evidence that such income was not intended by the legislature to be taxed--can be seen in R&T § 17836. According to this section, the estate is allowed a deduction from income in respect of a decedent only for California inheritance taxes paid on such income. [R&T § 17837 defines "inheritance tax" so as to exclude inheritance taxes paid to foreign states.] But where the decedent is a nonresident, no inheritance tax is paid in California on such asset because the estate of a nonresident is subject to California inheritance tax only on real property and tangible personal property located in California. Thus, under the FTB's analysis, the estates of nonresident decedents would be subjected to the burden of California income tax without the possibility of deduction for estate taxes paid with respect to such income. This would not be the case if the decedent were a resident, and there is no reason to assume this unfairness was intended by the legislature--particularly in the absence of clear authority to tax these amounts. Quite the contrary, § 17836 is identical to IRC § 691(c)(1) where, of course, there are no such peculiar residency problems and the estate is always entitled to an income tax deduction for estate taxes paid on § 691 income.

2. Even If California Is Entitled To Tax The Percentage Payments, It Must Allow A Credit For Taxes Paid To The State Of New York.

To avoid the burden of double taxation, R&T § 18004(a) allows a California tax credit to estates whose income is taxed by two jurisdictions:

"If an estate or trust is a resident of this State and also a resident of another state, it shall, notwithstanding the limitations contained in Sections 18001 and 18002[\*], be allowed a credit against taxes imposed by this part for net income taxes imposed by and paid to the other state, subject to the following conditions:

"(a) Credit shall be allowed only for such proportion of the taxes paid to the other state as the income taxable under this part and also subject to tax in the other state bears to the entire income upon which the taxes paid to the other state are imposed . . . ."

Pursuant to this formula, taxes paid to another state will be allowed as a credit against taxes levied in California with respect to the same income, and the California tax would be proportionately reduced. Indeed, in a case such as the instant one (where the foreign state's tax rate exceeds the California rate), the tax credit under R&T § 18004(a) will totally offset the California assessment.\*\*

\* § 18001 and § 18002 deal with restrictions on tax credits allowable to residents and nonresidents which are not estates or trusts.

\*\* The fact that the New York rates exceeded the California rates for all years relevant hereto is established by the Affidavit of Aaron Frosch, Executor, a copy of which is attached hereto as Exhibit "A". Specific illustrations of the applicability of § 18004(a) to the instant case are set forth in Exhibit "B" hereto.

1 R&T § 18004(a) is operative when an estate is a 1  
 2 "resident" of both this State and another. The determina- 2  
 3 tion of residency for estates is not based upon the "minimum 3  
 4 contacts" criteria employed for living individuals, but 4  
 5 rather is governed by R&T § 18003 which provides that 5  
 6 ". . . an estate or trust is a 'resident' of the state which 6  
 7 taxes the income of the estate or trust irrespective of 7  
 8 whether the income is derived from sources within that state." 8

9 It has been suggested by the FTB that the California 9  
 10 ancillary estate is not a "resident" within the meaning of 10  
 11 R&T § 18003 (and hence is not entitled to the tax credit under 11  
 12 R&T § 18004) but this position is based upon interpreting 12  
 13 R&T § 18003 in the narrowest possible manner: 13

14 1. As noted above, R&T § 18003 provides 14  
 15 that an estate is a resident of the state which 15  
 16 taxes its income ". . . irrespective of whether 16  
 17 the income is derived from sources within that 17  
 18 State." 18

19 2. According to the FTB, this phrase 19  
 20 means that an estate is only a resident of a 20  
 21 state which taxes income both from sources 21  
 22 within and without the state. 22

23 3. By virtue of 1 and 2, the FTB asserts 23  
 24 that, because California only taxes income from 24  
 25 sources within this state, the domiciliary estate 25  
 26 is not a California "resident" within the mean- 26  
 27 ing of § 18003.\* 27

28  
 29 \*  
 30 This position is presumably founded on R&T Reg. § 18003-  
 31 18004 which provides that: ". . . If an estate or trust is  
 32 taxable under the law on income from sources both within and  
 without the State, it is a resident of California. If, how-  
 ever, it is taxable only on income from sources within this  
 State, it is a non-resident."

1 To sustain the FTB's interpretation of § 18003, 1  
 2 one must construe "irrespective of whether such income is 2  
 3 derived from sources within that State" to mean "only if 3  
 4 some part of such income is derived from sources without 4  
 5 that State." Such an interpretation is contrary to the plain 5  
 6 meaning of the word "irrespective." Webster's Seventh New 6  
 7 Collegiate Dictionary defines "irrespective of" as "without 7  
 8 regard to; regardless of." The clear import of "irrespective" 8  
 9 in R&T § 18003 is that, in determining the "residence" of an 9  
 10 estate or trust, it is unimportant whether the income taxed 10  
 11 is from sources within or without the State. If any portion 11  
 12 of an estate's income, regardless of its source, is taxed by 12  
 13 a jurisdiction, the estate will be a "resident" of that 13  
 14 State under R&T § 18003 and entitled to a credit under R&T 14  
 15 § 18004(a). 15

16 Strong evidence sustaining the correctness of this 16  
 17 interpretation of R&T § 18003 is found in R&T § 18004. That 17  
 18 section provides "If an estate or trust is a resident of 18  
 19 this State and also a resident of another state, it shall, 19  
 20 notwithstanding the limitations contained in R&T §§ 18001 20  
 21 and 18002 be allowed a credit . . ." (emphasis added). Yet 21  
 22 R&T § 18002 deals only with limitations on the availability 22  
 23 of a tax credit to nonresidents. Thus, there would seem to 23  
 24 be only one reason for the legislature to have referred to 24  
 25 this section: While an estate may be considered a 25  
 26 "nonresident" for purposes of determining what portion, if 26  
 27 any, of its income is to be taxed in California, once any 27  
 28 part of its income is taxed by this State and another State 28  
 29 it is entitled to a tax credit in California. This would 29  
 30 not only seem an equitable rule for the avoidance of double 30  
 31 taxation, but, unless the legislature's reference to R&T § 31  
 32 18002 is merely surplusage, it is compelled by the statute. 32

1           Although R&T § 17032 states that headings should . 1  
2 not be used in interpreting the law, it is nonetheless 2  
3 indicative of the authorities' interpretation that the head- 3  
4 ing of R&T § 18004 both in West's Annotated Code and the 4  
5 Prentice-Hall Tax Reporter states that this section deals 5  
6 with tax credits for an "Estate or Trust Having Both Resident 6  
7 and Non-resident Status" (emphasis added). Again, unless this 7  
8 was an idle act by the legislature, it would seem that the 8  
9 scheme of tax credit under § 18004 envisions precisely the 9  
10 instant situation--an estate which was a "resident" of a 10  
11 foreign state and also taxed upon certain types of instate 11  
12 income (i.e., as a "nonresident") by California. Moreover, 12  
13 any other interpretation of this heading would be inconsistent 13  
14 with the legislature's reference to § 18002 in the body of 14  
15 § 18004. 15

16           The unfair burden of the FTB's position is readily 16  
17 apparent in the instant case. California did not assert its 17  
18 tax on the Percentage Payments until December of 1971, almost 18  
19 eight years after the first New York taxes were due on this 19  
20 income. The estate would presumably have been entitled to a 20  
21 New York credit for California income taxes if it had paid 21  
22 the California taxes when the New York returns were filed, 22  
23 but by the time of California's assertion the New York returns 23  
24 had long since been filed and the period within which to apply 24  
25 for a New York refund had expired. Accordingly, if the FTB's 25  
26 position is sustained, the estate will have paid taxes to 26  
27 two states on the same income with no possibility of a tax 27  
28 credit. 28

29           By reason of the foregoing, if, contrary to 29  
30 Appellant's assertion, the Percentage Payments are held to 30  
31 constitute taxable income, California must nonetheless allow 31  
32 a credit for taxes paid to the State of New York. 32

1 3. Even If No Credit Is Allowable, The Penalty Should Be 1  
 2 Waived. 2

3 R&T § 25931 allows relief from the California 3  
 4 penalty in the event "the failure is due to reasonable cause 4  
 5 and not due to wilful neglect. . . ." Appellant's basic 5  
 6 position is that no income tax is due as claimed by the FTB; 6  
 7 and if Appellant is successful, the penalty and interest will 7  
 8 abate automatically. Yet, even if Appellant should fail in 8  
 9 its position of "no tax due," relief from the penalty should 9  
 10 nevertheless be allowed. 10

11 The instant case is one of first impression on both 11  
 12 the question of taxability and credit, and Appellant is aware 12  
 13 of no authority other than as set forth herein which would 13  
 14 guide a determination of these issues. The Executor, an 14  
 15 attorney in the State of New York, has at all times believed 15  
 16 in good faith that no tax was due the State of California by 16  
 17 reason of the Percentage Payments, and Appellant's failure to 17  
 18 pay California taxes was based upon this understanding. 18  
 19 Because of the difficulty in resolving these problems, and 19  
 20 indeed the impossibility for either Appellant or the FTB to 20  
 21 have come to conclusions with certainty, Appellant respectfully 21  
 22 asks that, if it is finally determined a tax is due, the 22  
 23 non-payment penalty be waived. 23

24 Authority that uncertainty in the law excuses the 24  
 25 non-payment payment penalty may be found in FTB Legal Ruling 25  
 26 No. 105, December 5, 1958. In that instance, the FTB ruled 26

27 "The law affixes no standard as to what 27  
 28 will constitute 'reasonable cause' for 28  
 29 this purpose [waiver of penalty]. . . 29  
 30 The Courts have ruled that reasonable 30  
 31 cause means nothing more than the exer- 31  
 32 cise of ordinary business care and 32  
 33 prudence; that the mere failure to comply 33  
 34 with provisions of revenue laws is not 34  
 35 a per se 'without reasonable cause' 35



violation; that it is well settled that in the application of penalties, all questions of doubt must be resolved in favor of those from whom the penalty is sought; that it is not the purpose of the law to penalize frank differences of opinion. . . . [A] reasonable cause excusing the failure to file a return may exist where the belief that no return was required is based on adequate grounds. Misunderstanding due to reasonable doubt as to whether a return is required in view of conflicting rulings or decisions, or ambiguities in the law may be an acceptable excuse." (Emphasis added.)

See also Palm Beach Trust Co. v. Com'r, 174 F.2d 527 (D.C. Cir. 1949), rev'g 9 TC 1060, cert. den. 338 U.S. 825.

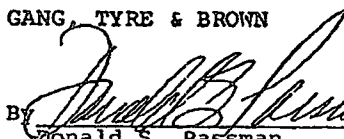
#### CONCLUSION

As set forth more fully above, Appellant respectfully asserts that the Percentage Payments are not taxable by the State of California. Moreover, even if these amounts are held to be so taxable, California must allow a tax credit under R&T § 18004 which would totally offset the taxes for each of the years in question. If a tax is found to be due, in light of the fact that Appellant has acted upon a good faith interpretation of the law, Appellant requests that the penalty for failure to file returns be waived.

Dated: December 7, 1972.

Respectfully submitted,

GANG, TYRE & BROWN

By   
Donald S. Passman  
Attorneys for Appellant

FRANCHISE TAX BOARD  
STATE OF CALIFORNIA

ESTATE OF MARILYN MONROE,  
DECEASED,

Federal Employer I.D. No. 136129486

)  
)  
)  
AFFIDAVIT OF  
AARON R. FROSCH

STATE OF NEW YORK )  
COUNTY OF NEW YORK ) SS.

I, AARON R. FROSCH, being duly sworn, depose and say:

1. I am an attorney at law duly licensed to practice in the State of New York, and I am now, and at all times have been, the sole executor of the domiciliary Estate of Marilyn Monroe, Deceased, in New York ("the Estate").

2. I am familiar with the Estate's New York State Fiduciary Income Tax Returns for the years 1963 to the present, inclusive, and all such returns were filed over my signature. True and accurate copies of the returns for 1963 through 1970, inclusive, are attached hereto marked Exhibit A, Items 1 through 8.

3. In each of the years 1963 through 1970, inclusive, the gross income figure on the Estate's New York Fiduciary Income Tax Returns (and, more specifically, the item entitled "other income" in Schedule 5, line 9 of the 1963 through 1966 returns, and in Schedule 5, line 8 of the 1967 through 1970 returns) included all sums derived from the motion pictures entitled "The Misfits" and "Some Like It Hot" which were paid to the Estate. Accordingly, the income taxes based upon such amounts were paid to the State of New York, as set forth in these returns.

4. Exhibit B attached to this Affidavit is a true and accurate statement of the New York State Income Tax rates applicable to the Estate for the years in question.

Dated 1.12.75, 1972, New York, New York.

Notarization:

  
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Aaron R. Frosch